

RD AN No. 4152 (1942-G)  
March 16, 2006

SUBJECT: Rural Business Enterprise Grant Program  
Clarification of Indirect Costs

TO: State Directors, Rural Development

ATTN: Business Program Directors

**PURPOSE/INTENDED OUTCOME:**

The purpose of this Administrative Notice (AN) is to provide additional guidance on indirect cost rate proposals as they relate to the Rural Business Enterprise Grant (RBEG) program.

**COMPARISON WITH PREVIOUS AN:**

This AN replaces expired RD AN No. 4045 (1942-G) dated February 1, 2005.

**IMPLEMENTATION RESPONSIBILITIES:**

Guidance on indirect cost rate proposals can be found in the following Office of Management and Budget (OMB) circulars:

- OMB Circular A-21, "Cost Principles for Educational Institutions"
- OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments"
- OMB Circular A-122, "Cost Principles for Nonprofit Organizations"

OMB Circular A-21 refers to facilities and administrative (F&A) costs throughout the circular. F&A costs are synonymous with indirect costs.

EXPIRATION DATE:  
March 31, 2007

FILING INSTRUCTIONS:  
Preceding RD Instruction 1942-G

An indirect cost is defined as a cost that has been incurred for common or joint objectives and, therefore, cannot be readily identified with a particular final cost objective. An indirect cost rate is determined by the cognizant agency. An indirect cost rate is a ratio or percentage of an organization's total indirect costs to its direct cost base. The Federal agency with the largest dollar value of awards with an applicant will be designated the cognizant agency and responsible for negotiating and approving indirect cost rates. For example, an applicant has a grant award from the Department of Education for another project totaling \$500,000. The applicant makes an application for a different project with the Rural Development Business Programs (Business Programs), and a grant is awarded for \$50,000. The Department of Education is the cognizant agency in this scenario because it has the most dollar value of awards with the applicant. The key element to remember is the total dollar value of all Federal awards for the applicant and not just the individual project. If no other Federal agency makes grant awards to the applicant, then Business Programs is the cognizant agency.

Some organizations already have approved indirect cost rates negotiated by their cognizant agency when they submit their applications to Business Programs. Rural Development State Offices may feel the indirect cost rates are too high for this Agency's portion of a project. If so, the State Office should contact the cognizant agency and ask that agency to negotiate with the applicant for a lower indirect cost rate on the Business Programs portion of the project.

If Business Programs is the cognizant agency, the State Office should submit the indirect cost rate proposal to the Specialty Lenders Division (SLD) after the grant is approved. The National Office has an agreement with the Food Safety and Inspection Service (FSIS) to determine indirect cost rates for the RBEG program. The Letter of Conditions should state that the indirect cost rate will not be approved until negotiated by FSIS and approved by SLD. FSIS will work closely with the applicant in negotiating an indirect cost rate. Indirect cost rate determinations cover one fiscal year. Therefore, if the grant award is for more than one fiscal year, the rate must be renegotiated for the next fiscal year. Any indirect cost rate that needs to be renegotiated should be submitted to SLD.

### **SUMMARY:**

The RBEG program is administered by Rural Development in accordance with RD Instruction 1942-G. OMB Circulars A-21, A-87, and A-122 provide guidelines regarding indirect cost rate proposals for grants. The State Office is responsible for

assuring the requirements of RD Instruction 1942-G and the OMB circulars are adhered to in administering the RBEG program.

If you have any questions concerning the content of this AN, please call Cindy Mason, Specialty Lenders Division Processing Branch, (202) 690-1433.

*(Signed by Jackie J. Gleason)*

JACKIE J. GLEASON  
Acting Administrator  
Business and Cooperative Programs